

ADDITIONAL RELIEF FOLLOWING HURRICANES KATRINA AND RITA

1. PURPOSE: This circular expresses concern about VA home loan borrowers affected by the enormity of Hurricanes Katrina and Rita, and describes measures mortgagees may employ to provide relief.

2. DIRECT AND INDIRECT IMPACT ON BORROWERS: Many borrowers were directly affected by the hurricanes, and include those whose homes were severely damaged or destroyed by winds or flooding, the families of those killed during hurricane landfalls, as well as those who suffered damage or personal injury during flooding due to subsequent levee breaks and disruptions in regular health services. Also directly affected were those whose work environments were destroyed or severely damaged as a result of the hurricanes and flooding. Many others have been indirectly affected, including business partners of those in the federally declared disaster areas announced by the Federal Emergency Management Agency (FEMA). The impact continues to ripple throughout the country, as evacuees travel nationwide and some family members of evacuees bring their relatives into their own homes and attempt to support them in these difficult times.

3. FORBEARANCE REQUEST: VA encourages holders of guaranteed loans to extend every possible forbearance to borrowers in distress as a result of Hurricanes Katrina and Rita. Careful counseling with borrowers should help determine whether their difficulties are directly or indirectly related to the hurricanes, or whether they stem from other sources which must be addressed. VA Regulations (located in title 38, Code of Federal Regulations, or CFR) regarding "Reapplication of Prepayments (38 CFR 36.4310), "Advances" (38 CFR 36.4313), "Extensions and Reamortizations" (38 CFR 36.4314), and "Supplemental Loans" (38 CFR 36.4355) may be of assistance in appropriate cases.

4. MORATORIUM ON FORECLOSURES: Although the loan holder is ultimately responsible for determining when to initiate foreclosure and for completing termination action, VA has requested on its website (www.homeloans.va.gov) that holders establish a 90-day moratorium from the date of the disasters on initiating new foreclosures on loans affected by the hurricanes. Since VA is requesting this, the provisions of 38 CFR 36.4319(f) will not be applied by VA during the moratorium to loans where VA is notified that the moratorium is appropriate. Also, the period of the moratorium will be considered "VA-requested forbearance" for purposes of the no-bid avoidance provisions of 38 CFR 36.4321. The initial request applied to loans in the federally declared disaster areas, which VA believes should include areas declared by FEMA as eligible for public assistance as well as those areas eligible for individual assistance. Because of the national impact of the hurricanes, holders should ensure that all foreclosure referrals nationwide during the moratorium are reviewed prior to initiation, to ensure that borrowers have not been affected significantly enough to justify delay in referral. Any questions about impact should be discussed with the appropriate VA Regional Loan Center (RLC).

5. LATE CHARGE WAIVERS: VA is aware that many servicers plan to waive late charges on loans in the disaster areas, and has encouraged all servicers to adopt such a policy. At this time, VA also requests that servicers consider expanding the waiver of late charges nationwide due to the ripple impact of the hurricanes as mentioned in paragraph 2.

6. CREDIT AND VA REPORTING: In order to avoid damaging credit records of veterans in the affected areas, many servicers have suspended credit bureau reporting on loans in those areas. At this time VA would encourage servicers to consider suspension of credit reporting on borrowers nationwide who have been affected by the hurricanes. Similarly, VA will not penalize servicers for any late default reporting to VA caused by the hurricanes, such as direct damage to servicers located in the disaster areas, or servicers outside the area impacted by business partners within the disaster areas. Contact the appropriate RLC with any questions.

7. ACTIVATION OF THE NATIONAL GUARD: Many members of the National Guard have been called to active duty to assist in recovery efforts and to replace active duty service members who are assisting directly in the recovery. Those individuals may experience financial difficulties of their own due to what could be extended tours of duty during the disaster recovery efforts. VA encourages servicers to extend special forbearance to National Guard members in this situation.

8. OTHER VETERANS' BENEFITS: During the course of servicing VA-guaranteed loans, counselors may contact veterans who appear to be in need of additional benefits. In order to help those veterans, mortgagees may want to ensure that their staffs are aware of, and prepared to pass on a national toll-free number for obtaining information on veterans' benefits. The number is 1-800-827-1000. Other benefits which may be available to eligible veterans include compensation for service-connected disabilities, pension payments for needy veterans, vocational counseling and employment assistance, education assistance, and life insurance programs. Medical benefits may also be available for many service-related conditions, including post traumatic stress disorder.

9. STATION RELEASES: This circular will be posted on VA's Loan Guaranty website, and RLCs, Honolulu, and San Juan will also disseminate this information as soon as possible on their websites. Questions may be directed to Carl Wasson at 202-273-7345.

10. RESCISSIONS

- a. Circular 26-05-5 is rescinded effective immediately.
- b. This circular is rescinded January 1, 2007.

By Direction of the Under Secretary for Benefits

Keith Pedigo, Director
Loan Guaranty Service

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